

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2020-6-G

Dominion Energy South Carolina, Inc.'s)	
Filing of Quarterly Monitoring Report for)	
the Twelve-Month Period ending March 31,)	SETTLEMENT AGREEMENT
2020, and Proposed Rate Adjustments)	
pursuant to the Natural Gas Rate)	
Stabilization Act.)	
_____)	

This Settlement Agreement is made by and between the South Carolina Office of Regulatory Staff (“ORS”) and Dominion Energy South Carolina, Inc. (“DESC” or the “Company”) (collectively referred to as the “Parties” or sometimes individually as a “Party”).

WHEREAS, DESC, pursuant to S.C. Code Ann § 58-5-430 (2015) and § 58-5-440 (2015) of the Natural Gas Rate Stabilization Act (“RSA”), filed with the Public Service Commission of South Carolina (“Commission”) its quarterly monitoring report for the twelve-month period ending March 31, 2020, and proposed adjustments to its rates and charges necessary to provide DESC the opportunity to earn the midpoint of the range of rate of return on common equity as established in the Company’s most recent general rate case for natural gas service. *See* Docket No. 2005-113-G;

WHEREAS, the Report of ORS’s examination of DESC’s Monitoring Report for the Twelve-Month Period Ended March 31, 2020 pursuant to the RSA, was filed with the Commission on September 1, 2020;

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest; and,

WHEREAS, following those discussions, the Parties have each determined that their interests, and the public interest, would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. DESC will implement retail natural gas rates for the twelve-month period beginning with the first billing cycle of November 2020 calculated on the basis of a 9.9% Return on Equity ("ROE") instead of the 10.25% ROE approved by Commission Order No. 2005-619.

2. The Parties agree that the following are the only attachments to this Settlement Agreement: Settlement Schedule 1 (Operating Experience – Total Gas); Settlement Schedule 2 (Explanations of Accounting and Pro Forma Adjustments – Gas Operations); and Settlement Schedule 3 (Weighted Cost of Capital).

3. The Parties agree that DESC will adopt the accounting adjustments of ORS as set forth in Settlement Schedule 2 as attached to this Settlement Agreement which includes a revision to Adjustment No. 13 entitled "Incentive Compensation Adjustment."

4. The Parties agree that based upon the accounting adjustments agreed upon by the Parties, a Debt/Equity Ratio of 46.86%/53.14%, and the agreement of DESC to implement retail natural gas rates based on a 9.9% ROE, the Company's natural gas customers will realize an increase in current margin rates totaling \$6,326,995. This equates to a reduction of \$2,303,687 for the Company's natural gas customers when compared to the rates calculated at the authorized 10.25% ROE and proposed for approval by the Company in its June 15, 2020 RSA application.

6. DESC shall file a retail natural gas general rate case proceeding with the Commission no later than April 1, 2023, and ORS shall not initiate a rule to show cause why a full

rate proceeding should not be initiated pursuant to S.C. Code Ann. § 58-5-470 while this Agreement is in effect, which shall expire October 31, 2021.

7. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable, and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

8. The Parties agree that signing this Settlement Agreement (a) will not constrain, inhibit, impair, or prejudice their arguments or positions held in future RSA proceedings, collateral proceedings, or other proceedings unrelated to the above-referenced docket; (b) will not constitute a precedent or evidence of acceptable practice in future proceedings; and (c) will not limit the relief, rates, recovery, or rates of return that any Party may seek or advocate in any future proceeding. The Parties agree that this Settlement Agreement is in the public interest when considered as a whole. If the Commission declines to approve this Settlement Agreement in its entirety, then any Party may withdraw from the Settlement Agreement without penalty or obligation.

9. The Parties represent that the terms of this Settlement Agreement are based upon full and accurate information known as of the date this Settlement Agreement is executed. If, after execution, either Party is made aware of information that conflicts, nullifies, or is otherwise materially different than that information upon which this Settlement Agreement is based, either Party may withdraw from the Settlement Agreement with written notice to the other Party.

10. This Settlement Agreement shall be interpreted according to South Carolina law.

11. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[PARTY SIGNATURES TO FOLLOW ON SEPARATE PAGES]

Representing the South Carolina Office of Regulatory Staff



Andrew M. Bateman, Esquire

Jenny R. Pittman, Esquire

South Carolina Office of Regulatory Staff

140 Main Street, Suite 900

Columbia, South Carolina 29201

Tel.: (803) 737-0884

Fax: (803) 737-0895

Email: abateman@ors.sc.gov

Representing Dominion Energy South Carolina, Inc.



K. Chad Burgess, Esquire

Matthew W. Gissendanner, Esquire

Dominion Energy Southeast Services, Inc.

220 Operation Way, Mail Code C222

Cayce, South Carolina 29033

Telephone: 803-217-8141 (KCB)

803-217-5359 (MWG)

Facsimile: 803-217-7810

Email: chad.burgess@dominionenergy.com

Email: matthew.gissendanner@dominionenergy.com

Settlement Schedule 1

Dominion Energy South Carolina, Inc., Docket No. 2020-6-G
Operating Experience - Total Gas
For the Twelve-Month Period Ended March 31, 2020

<u>Description</u>	<u>Per Regulatory Books</u>	<u>Accounting & Pro Forma Adjustments</u>	<u>As Adjusted</u>	<u>Total Proposed Increase/ (Decrease)</u>	<u>Total After Proposed Increase/ (Decrease)</u>
<u>Operating Revenues</u>	\$ 393,112,545	\$ 6,913,143 (A)	\$ 400,025,688	\$ 6,326,995 (L)	\$ 406,352,683
<u>Operating Expenses:</u>					
O&M Expenses - Cost of Gas	197,160,941	0	197,160,941	0	197,160,941
O&M Expenses - Other	70,207,203	7,935 (B)	70,215,138	0	70,215,138
Dep. & Amort. Expenses	33,914,742	1,575,922 (C)	35,490,664	0	35,490,664
Taxes Other Than Income	30,062,082	4,248,893 (D)	34,310,975	38,254 (M)	34,349,229
State Income Taxes	784,425	1,250,494 (E)	2,034,919	314,437 (N)	2,349,356
Federal Income Taxes	4,661,693	570,948 (F)	5,232,641	1,254,604 (O)	6,487,245
<u>Total Operating Expenses</u>	336,791,086	7,654,192	344,445,278	1,607,295	346,052,573
<u>Total Operating Income</u>	56,321,459	(741,049)	55,580,410	4,719,700	60,300,110
Customer Growth	1,020,201	(13,640) (G)	1,006,561	85,474 (P)	1,092,035
Interest on Customer Deposits	(252,169)	0	(252,169)	0	(252,169)
<u>Net Income for Return</u>	57,089,491	(754,689)	56,334,802	4,805,174	61,139,976
<u>Rate Base:</u>					
Gross Plant in Service	1,374,714,749	(701,137) (H)	1,374,013,612	0	1,374,013,612
Reserve for Depreciation	503,065,533	1,496,284 (I)	504,561,817	0	504,561,817
Net Plant in Service	871,649,216	(2,197,421)	869,451,795	0	869,451,795
Construction Work in Process	33,051,550	0	33,051,550	0	33,051,550
Accum. Deferred Income Taxes	(98,773,363)	0	(98,773,363)	0	(98,773,363)
Environmental Costs	9,632,417	0	9,632,417	0	9,632,417
Pension Deferral	5,269,043	0	5,269,043	0	5,269,043
OPEB's	(18,604,822)	(28,113) (J)	(18,632,935)	0	(18,632,935)
Tax Deferrals	(78,037,443)	0	(78,037,443)	0	(78,037,443)
Injuries & Damages	(489,194)	0	(489,194)	0	(489,194)
Materials & Supplies	20,645,937	0	20,645,937	0	20,645,937
Total Working Capital	8,775,900	991 (K)	8,776,891	0	8,776,891
Prepayments	12,277,033	0	12,277,033	0	12,277,033
Average Tax Accruals	(14,980,605)	0	(14,980,605)	0	(14,980,605)
Customer Deposits	(10,499,976)	0	(10,499,976)	0	(10,499,976)
<u>Total Rate Base</u>	739,915,693	(2,224,543)	737,691,150	0	737,691,150
<u>Rate of Return</u>	7.72%		7.64%		8.29%
<u>Return on Equity</u>	8.82%		8.67%		9.90%

Dominion Energy South Carolina, Docket No. 2020-6-G
Explanation of Accounting and Pro Forma Adjustments - Gas Operations
For the Twelve-Month Period Ended March 31, 2020

Settlement Schedule 2
1 of 3

Adj #	Description	Operating Revenues \$	O&M Expenses - Other \$	Depreciation & Amortization Expenses \$	Taxes Other Than Income \$	State Income Taxes @ 5.0% \$	Federal Income Taxes @ 21% \$	Customer Growth \$	Gross Plant in Service \$	Reserve for Depreciation \$	OPEB's \$	Total Working Capital \$
<u>Accounting & Pro Forma Adjustments</u>												
1	Annualize Wages, Benefits, and Payroll Taxes Per Company Per Settlement		637,401 637,401		44,887 44,887	(34,114) (34,114)	(136,117) (136,117)					79,675 79,675
2	Remove Employee Clubs Per Company Per Settlement			(13,545) (13,545)		677 677	2,702 2,702		(553,981) (553,981)	(245,920) (245,920)		
3	Annualize Depreciation based on Proposed Rates Per Company Per Settlement			1,590,642 1,590,642		(79,532) (79,532)	(317,333) (317,333)			1,792,985 1,792,985		
4	Annualize Property Taxes Per Company Per Settlement				4,205,788 4,205,788	(210,289) (210,289)	(839,055) (839,055)					
5	Annualize Health Care Expenses Per Company Per Settlement		(761,389) (761,389)			38,069 38,069	151,897 151,897					(95,174) (95,174)
6	Annualize Other Post-Employee Benefits (OPEB) Per Company Per Settlement		37,459 37,459			(1,873) (1,873)	(7,473) (7,473)				(28,113) (28,113)	4,682 4,682
7	Annualize Insurance Expense Per Company Per Settlement		2,573 2,573			(129) (129)	(513) (513)					322 322
8	Tax Effect of Annualized Interest Per Company Per Settlement					3,272 3,370	13,056 13,447					
9	Annualize Current Pension Expense Per Company Per Settlement		(769,113) (769,113)			38,456 38,456	153,438 153,438					(96,139) (96,139)
10	WNA Deferral Adjustment Per Company Per Settlement	2,919,328 2,919,328			16,958 17,650	145,118 145,084	579,023 578,885					
11	Annualize RSA Revenue Increase (Order No. 2019-729) Per Company Per Settlement	1,692,201 1,692,201			9,830 10,231	84,119 84,099	335,633 335,553					

Dominion Energy South Carolina, Docket No. 2020-6-G
Explanation of Accounting and Pro Forma Adjustments - Gas Operations
For the Twelve-Month Period Ended March 31, 2020

Settlement Schedule 2
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Adj #	Description	Operating Revenues \$	O&M Expenses - Other \$	Depreciation & Amortization Expenses \$	Taxes Other Than Income \$	State Income Taxes @ 5.0% \$	Federal Income Taxes @ 21% \$	Customer Growth \$	Gross Plant in Service \$	Reserve for Depreciation \$	OPEB's \$	Total Working Capital \$
12	Remove Lightsey Settlement Property Per Company Per Settlement			(3,130) (3,130)		156 156	624 624		(147,156) (147,156)	(50,781) (50,781)		
13	Incentive Compensation Adjustment Per Company Per Settlement		(186,205) (496,709)		(15,337) (32,604)	10,077 26,466	40,208 105,598					(23,276) (62,089)
14	Annualize Dominion Energy Services Allocations Per Company Per Settlement		1,429,767 1,361,123	1,955 1,955	(10,988) (10,993)	(71,037) (67,604)	(283,436) (269,741)					178,721 170,140
15	Normalize Effective Income Tax Rate Per Company Per Settlement					1,193,104 1,193,104	341,963 341,963					
16	Remove Timber Revenue Per Company Per Settlement	(144,874) (144,874)			(842) (811)	(7,202) (7,203)	(28,734) (28,741)					
17	Tax Reform Rate Rider Revenue Adjustment Per Company Per Settlement	2,273,292 2,273,292			13,206 13,744	113,004 112,977	450,887 450,780					
18	Annualize Fort Jackson Privatization Contract Revenue Per Company Per Settlement	173,196 173,196			1,006 1,047	8,610 8,607	34,352 34,344					
19	Manufactured Gas Plant Expense Adjustment Per Company Per Settlement		179,249 179,249			(8,962) (8,962)	(35,760) (35,760)					22,406 22,406
20	Remove Expenses for Ratemaking Per Company Per Settlement		(60,367) (182,659)		(46) (46)	3,021 9,135	12,052 36,450					(7,546) (22,832)
21	Customer Growth Per Company Per Settlement							- (13,640)				
Total Company Accounting & Pro Forma Adjustments		6,913,143	509,375	1,575,922	4,264,462	1,224,545	467,414	-	(701,137)	1,496,284	(28,113)	63,671
Total Settlement Accounting & Pro Forma Adjustments		6,913,143	7,935	1,575,922	4,248,893	1,250,494	570,948	(13,640)	(701,137)	1,496,284	(28,113)	991
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)

Dominion Energy South Carolina, Docket No. 2020-6-G
Explanation of Accounting and Pro Forma Adjustments - Gas Operations
For the Twelve-Month Period Ended March 31, 2020

Settlement Schedule 2
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Adj #	Description	Operating Revenues \$	O&M Expenses - Other \$	Depreciation & Amortization Expenses \$	Taxes Other Than Income \$	State Income Taxes @ 5.0% \$	Federal Income Taxes @ 21% \$	Customer Growth \$	Gross Plant in Service \$	Reserve for Depreciation \$	OPEB's \$	Total Working Capital \$
Total Proposed Increase/(Decrease)												
22	Adjust Revenue, Taxes & Customer Growth Per Company Per Settlement	8,630,682 6,326,995			50,136 38,254	429,027 314,437	1,711,819 1,254,604	116,645 85,474				
Total Company Proposed Increase/(Decrease)		8,630,682	-	-	50,136	429,027	1,711,819	116,645	-	-	-	-
Total Settlement Proposed Increase/(Decrease)		6,326,995	-	-	38,254	314,437	1,254,604	85,474	-	-	-	-
		(L)			(M)	(N)	(O)	(P)				

Dominion Energy South Carolina, Inc., Docket No. 2020-6-G
Weighted Cost of Capital
For the Twelve-Month Period Ended March 31, 2020

Description	Capital Structure	Ratio	Regulatory Per Books				As Adjusted				After Proposed Increase/(Decrease)			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 3,355,787,000	46.86%	\$ 346,724,494	6.46%	3.03%	\$ 22,398,402	\$ 345,682,073	6.46%	3.03%	\$ 22,331,062	\$ 345,682,073	6.46%	3.03%	\$ 22,331,062
Preferred Stock	100,000													
Common Equity	3,806,056,154	53.14%	393,191,199	8.82%	4.69%	34,691,089	392,009,077	8.67%	4.60%	34,003,740	392,009,077	9.90%	5.25%	38,808,914
Totals	\$ 7,161,943,154	100.00%	\$ 739,915,693		7.72%	\$ 57,089,491	\$ 737,691,150		7.63%	\$ 56,334,802	\$ 737,691,150		8.28%	\$ 61,139,976